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Public Debt and the Domestic Financial Structure in Peru, 1850-1914¹

The analysis of domestic pull (demand) factors in Latin American indebtedness cycles centers mainly on issues of public debt management.² Only recently have there been some attempts at establishing connections between public debt problems and domestic private capital markets, especially for the early independent period.³ However, it is widely assumed that domestic demand factors had a small role to play in Latin American debts. According to this view, international push (supply) factors seem to have been determinant in Latin American debt crises (Marichal 1989: 7; Stallings 1987: 48-49).

There are, however, several problems with focusing exclusively on public and external factors of Latin American debts. In the first place, important characteristics of domestic private finance are lost or overshadowed. Secondly, an insufficient understanding of the interaction between public and private finance undermines a proper perspective of the social and national interests behind domestic financial and monetary policies. And thirdly, there is a tendency to exaggerate the importance of public debt finance within the larger issue of the impact of modern capitalist finance on Latin American economic development.

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2 Failure or success of debt strategies have been correctly associated with deficitary or developmental use of public finance (Fishlow 1985a: 385).

3 Carmagnani (1983), Amaral (1988), Tenenbaum (1986b), Gootenberg (1989b), Quiroz (1987), Lewis (1983).

With such considerations in mind, this study evaluates the effects of public debt on the overall financial structure of Peru in two export cycles, the mature Guano Age (1850-1879) and the agro-export recovery after the War of the Pacific (1884-1914). Did the terms and use of public indebtedness facilitate or, on the contrary, impede the capacity of native financial institutions and élites to allocate financial resources with efficiency? In other words, did the relationship between public and private finance contribute or not to the promotion of development?⁴

Some answers to these questions will be suggested here through the analysis of domestic interests and comparisons between two contrasting export cycles. Special attention will be given to four structural variables affected by debt strategies: financial institutional development, effectiveness of financial intermediation, monetary conditions, and wealth distribution. This chapter will show that the disproportionate public indebtedness of the Guano Period deeply disturbed the overall financial development in Peru, while the modest public debt during the agro-export recovery allowed better institutional (but not distributive) conditions for the evolution of the domestic financial structure and its developmental effects.

The historical interaction between the public and private sectors in the economic development of Peru has been addressed from different perspectives. On the one hand, authors like Malpica (1977), Yepes del Castillo (1972: 184) and Bonilla (1974: 63) argue that an incapable economic and financial (liberal) élite controlled and mismanaged the state's finances in order to advance their own interests in collaboration with foreign capital. Alternatively, Hunt (1985: 257) views the economic stagnation

4 I assume here that private initiative and activity is an essential component of the process of capitalist development. That means, it is very difficult for a state to substantially replace the role of the private sector in a capitalist economy and society without causing considerable distortions (McKinnon 1973). On the other hand, I also assume that the state's participation in building or regulating national infrastructural works, educational and health services, or wealth distribution, is essential in the process of development conceived in its wider sense, i. e. the well being of the majority of the population (Ranis et al. 1984: 145-181).

in nineteenth century Peru as due to overwhelming structural inelasticities and poor public investment decisions; likewise, Gootenberg (1989a) and Mathew (1981) explain that traditional, protectionist and "nationalist" forces under urgent fiscal needs acted against adequate liberal trade policies and modern private and public financial management. I consider that, with some modifications, to account for the two export and financial cycles under study, the views of Hunt, Gootenberg and Mathew explain more adequately the evidence produced by research on the issue.

The specific relationship between Peruvian private and public debt finance had its roots in the colonial order. Thus, before discussing the 1850-1879 and 1884-1914 periods, the chosen historical approach necessitates a brief discussion of the pre-1850 situation in order to establish the context of the private-public interaction.

1. Colonial Debt Heritage

The origins of the Peruvian public debt are found in the late colonial period. At this time the colonial state and the official merchant guild replaced ecclesiastical control of key colonial credit mechanisms.

Private credit contracts had been fairly common since the beginning of the Spanish colonies in order to overcome monetary scarcity (Greenow 1983; Brading 1971). Credit was essential to the working of the local colonial economy and investment, since Spanish colonial trade and the government needed to export specie to pay for imports and make remittances to Spain. Endemic monetary scarcity had been supplemented by several credit mechanisms – mainly colonial mortgages (*censos*) and notarial loans (*escrituras*) – since the beginning of the Spanish colonies. Periodic extractions of bullion and monetary manipulations, such as the 1772-1783 re-minting of 10.5 million pesos of locally debased coins (*moneda macuquina*) which were re-

duced to only 2.7 million pesos *fuertes*,⁵ added to the circulation problems of the local economy.

The Spanish imperial state started a series of reforms which tried to emulate financial arrangements in England. In 1782 the first central bank of Spain, the Banco de San Carlos, was created to support the financing of Spanish war efforts through the issue of royal interest-bearing notes (*vales reales*).⁶ International and domestic conflicts fostered the increasing role of the state in colonial finances.

Ecclesiastical credit was the first casualty of the Bourbon financial reforms in late-colonial Peru: the expropriation of Jesuit properties in 1767, the consolidation of *vales reales* (1806-1809), and the abolition of the Inquisition (1813-1815) achieved a partial disentailment of ecclesiastical liens and land property in favor of a stronger fiscal and commercial presence in credit matters. The Bourbon determination for reform set an important precedent in the relation between public and private financial interests.

Censos on landed estates accounted for 76 percent of a total of 587,679 pesos in expropriated Jesuit credits in 1769, and 51 percent of a total of one million pesos in censos pertaining to the Caja de Censos de Indios of Lima between 1757-1781.⁷ Approximately 70 percent of those who bought the expropriated Jesuit estates from the colonial state were merchants (Aljovín de Losada 1990).

The *consolidación de vales reales* was particularly objected to by large sections of the creole élite, especially by the Lima town council (cabildo) and important landowners. The measure was an attempt by the Crown to back its depreciating royal notes with liquid funds obtained from private debtors of ecclesiastical liens in Spain and its colonies. By decree the royal government became the single debtor of ecclesiastical liens, and compelled

5 *Mercurio Peruano* (Lima), no. 27 (Lima 1791), p. 250; similar monetary aspects in 1686 and 1786 are discussed in Moreyra-Paz Soldán (1980: 153-155, 257-259).

6 Anes Alvarez et al. (1970); Dickson (1967); Riley (1980: 165-174).

7 AHN, Jesuitas-Lima, libro 443; AGNL, Juzgado General de Censos, legs. 31-93.

the former debtors to repay these old ecclesiastical credits to newly appointed consolidation officers instead of to creditor ecclesiastical institutions. In Peru the consolidation uprooted from debtor private properties approximately 1.5 million pesos between its introduction, in 1806, and its interruption in 1808 after incessant native protest. The cessation of the measure did not impede the shipping of approximately 1.3 million pesos in consolidation proceeds to Spain in 1809. Consequently colonial mortgage loan interests increased from 3-4 percent to 5-6 percent.⁸

Thus, the traditional forms of mortgage credit granted by ecclesiastical institutions and by official Indian funds (Caja de Censos) to traditional colonial landowners were seriously upset. However, new fiscal debt mechanisms under the administration of the merchants' guild (Consulado) were introduced.

In the seventeenth and early eighteenth centuries the financial relationship between the state and the merchant guild had been based on monopoly rights and privileges granted to the guild in exchange for "services" to the crown, which included donations, forced loans and loans without interest. Gradually however, the proceeds of new trade taxes farmed by the Consulado were used as guarantees to repay loans to the state by merchants and other private lenders. Additionally, beginning in 1777 these public loans were entitled to 3-6 percent annual interest.⁹

After 1750 trade and mining production increased in the Peruvian colony.¹⁰ By 1800 the Lima merchants had managed to channel funds of traditional lenders into the enhanced com-

8 "Expediente sobre la venta de los bienes de obras pías en los reinos de Indias," AGI, Gobierno, Lima, leg. 769; letter by Diego Miguel Bravo de Lagunas, 12 Oct. 1811, "Amortización y consolidación 1780-1830," AGI, Indiferente, leg. 1702; Abascal to President of Castilla, 8 Apr. 1809, AGI, Gobierno, Lima, leg. 738.

9 "Toda Imposición, 1819," AGNL, Tribunal del Consulado, serie H-3, leg. 349, libro 1237A; "Informe que presenta la comisión de la deuda española y secuestros," 20 Feb. 1865, BNL, Ms., 1865-D2845; "Sobre el préstamo del millón y medio," AGI, Consulados, leg. 794.

10 Fisher (1977), (1985); *Mercurio Peruano*, no. 1 (Lima 1791), pp. 1-7; no. 23 (Lima 1791); pp. 209-216.

mercial activities as cater well as for the state's fiscal needs. The *escritura de riesgo*, a sort of merchant credit and insurance instrument, made possible inter-oceanic commercial transactions by establishing a contract between the lender (who assumed the responsibility of any loss or risk) and the merchant (who used the loaned amount to buy merchandise), at high levels of interest. Merchants were thus able to raise working capital without having to engage directly in unreliable mining finance (*avío*) or advances for the purchase of silver (*rescate*).¹¹

However, between 1751 and 1774 the *premio*, or interest of *escritura* loans, declined from 65 percent to 16 percent because of increased trade and competition in trade financing.¹² Lima merchants protested against the erosion of their monopoly privileges and against merchant bankruptcies which occurred as a result of the relative over-supply in the colonial market. *Repartos de mercancías*, the forced distribution of imported and local produce among the Indian population, was just a temporary solution – backed by local credit chains – to the rise in the supply of imports. More satisfying arrangements in order for the Lima merchants to maintain some of their monopoly control included the formation of a regional closed market comprising Lima, Guayaquil and Chile, and the creation of new trade taxes to guarantee public loans (Flores Galindo 1984; Anna 1979: 120).

Peru was one of the last Hispanic American colonies in South America to become independent. A relatively solid system of public internal indebtedness, which had its roots in the late eighteenth century and which was strengthened by viceroy Fernando de Abascal in the early nineteenth century, constituted the financial basis of Spanish resistance to independence.¹³ The local private sector – especially merchants – was the main creditor of a state that offered fiscal revenues as collateral for

11 AGI, Gobierno, Lima, legs. 860, 874, 913; AHN, Consejos, leg. 20.319.

12 "El Consulado y comercio del Perú...", 1774, AGI, Gobierno, Lima, leg. 874.

13 Rodríguez Casado and Calderón Quijano (1944); Mendiburu (1931-38); Anna (1979: 114-119). Anna's argument of the extreme poverty of the Peruvian colony as a factor for Peruvian independence "by default" explains better the period 1815-1821 than the fiscal and public debt reforms between 1777 and 1815.

cash advances. According to a sample of the colonial fiscal debt shown in Table 1, merchants held 26 percent, aristocrats and rentiers 21, and ecclesiastical institutions 17 percent of a total of 3.6 million pesos between 1777 and 1819. Colonial taxation on trade, silver production and tobacco as well as – despite its temporary abolition between 1811 and 1815 – the Indian head tax (*tributo indígena*) lasted until the end of the colonial order and beyond.

A degree of trust or loyalty existed among the Peruvian creditors of the Spanish king. Perhaps the introduction of interest-bearing loans guaranteed by *imposiciones* (pledges) of new fiscal rents (new trade taxes such as *ordenanza*, *corsarios*, *derecho patriótico*, *subvención*, and *arbitrios*¹⁴), administered by the Consulado since 1777, contributed also to this public confidence. Abascal was certainly aware of the need both to provide adequate security and interest to local creditors and to exploit their fidelity to the crown (*fidelismo*) (Nieto Vélez 1960: 115-135). One independence fighter observed in 1823 that "the blood and treasures of the land of the sun were used to extinguish the sacred fire set alight by the love of independence" (Monteagudo 1823).

With independence, the relative trust in the state as debtor completely disappeared together with the organizing principle of the tax structure. The considerable amount owed by the colonial state to the private sector would not be honored by the new republican government. In the official surrender of the Spanish army to the independent army on 9 December 1824 the fate of the colonial debt was discussed: the defeated Spanish officials wanted the new government to honor the debt, while the victorious side dictated that a future independent Congress would decide on the issue.¹⁵ In August 1831 the Peruvian Congress recognized in principle the right of colonial creditors. In 1851 there was a serious attempt by corrupt officials to integrate this

14 Taxes created as part of Abascal's fiscal reforms in 1815 which charged one peso for each wheat "fanega" imported and 5 % on rents of Lima's *propiedades rústicas*.

15 "Deuda española liquidada hasta 1821," BNL, 1865-D12853.

Table 1: Sample of Main Creditors of the Colonial State in Peru by Social Sectors, 1777-1819

	Pesos	%
1. Merchants	930,444	26
2. Aristocrats and rentiers	766,499	21
3. Eccl. insts. and clergy	624,172	17
4. Fraternities (<i>legas</i>)	248,049	7
5. Charities	152,977	4
6. Munificent insts.	114,963	3
7. Military	95,600	3
8. Lenders (<i>prestamistas</i>)	88,000	3
9. Others (bureaucrats, etc.)	164,305	5
10. Not classified	400,276	11
Total	3,584,885	100

Sources: "Toda Imposición, 1819," AGNL, Tribunal del Consulado, serie H-3, leg. 349, libro 1237A; AGNL, Protocolos Notariales.

Table 2: Total Colonial Public Debt by Type of Creditors and Debts, Official Classification, 1821 (in Pesos)

Creditors	Consulado Consolidación		Tobacco	Totals	%
1. Private indivs.	4,989,484		394,756	5,384,240	44
2. Chaplain/cults	1,237,297	684,012	725,331	2,646,640	22
3. Monasteries	585,934	450,028	1,434,234	2,470,196	20
4. State eccl. funds	203,907	105,453	829,639	1,138,999	9
6. Munificence	232,252	21,252	69,112	322,616	3
5. Hospitals	226,528	20,840	36,753	284,121	2
Totals	7,475,402	1,281,585	3,489,825	12,246,812	100

Source: "Informe que presenta la comisión de la deuda española y secuestros," 20 Feb. 1865, BNL, 1865/D2845.

"old debt of the Spanish government" to the national debt.¹⁶ The unsettled debt also became a major issue in the Spanish-Peruvian conflict of 1864-1866 (Peru 1864: 4, 18). However, the colonial debt was never actually repaid.

It was calculated that the total outstanding debt which the colonial state owed to the private sector in 1821 amounted to 12.2 million pesos,¹⁷ i. e. estimated in 1865 at approximately £ 2.5 million (compared to a total public external debt of £ 9 million in the same year). As shown in Table 2, 44 percent of the 1821 debt was owed to private individuals and 42 percent to religious institutions and pious funds. The amount of the debt is considerable if we take into account that the funds invested in rents by the major institutions in Lima were approximately 12.7 million pesos in 1815 (Anna 1979: 114). Moreover, a policy of expropriations (*secuestros*) of private Spanish assets, considered necessary to stop private aid to the loyalist army, was practiced between 1821 and 1823. According to the zealous anti-Spaniard Bernardo Monteagudo, the number of Spaniards in Lima was reduced from 10,000 to only 600 between 1820 and 1823.¹⁸

The total amount expropriated from Spaniards and their supporters is difficult to assess. Expropriations were mainly of landed and urban property, as well as private and public credit documents, rather than cash. Approximately 43 haciendas, some of them valued at 400,000 and 500,000 pesos, were taken over by the state from original Spanish or pro-Spanish owners in the central coastal region only. The expropriated landed estates were given as a reward to military officers who had led

16 *El Peruano* (Lima, July 3, 1851).

17 "Deuda española liquidada hasta 1821," BNL, Ms., 1865-D12853. Post-1821 Spanish government debts and *secuestro* amounts not included.

18 Monteagudo (1823); "Informe que presenta la Comisión de la deuda española y secuestros," 20 Feb. 1865, BNL, Ms., 1865-D2845; and "Expediente relativo al acopio y organización de datos de la deuda española antigua y secuestros" (based on documents of the Tribunal de Cuentas, Dirección del Crédito Nacional and Tesorería Departamental, as well as 268 cases of *secuestros*), Feb. 1865, BNL, Ms., 1865-D2811; Flores Galindo (1984: 220).

the independence army, among them Antonio Sucre, Bernardo O'Higgins, Blas Cerdeña, José María Plaza and others.¹⁹

The new independent state weakened to the extreme the private sector of the old colonial order. The tax structure was in shambles, depending on insufficient import and silver mint taxes and, until its final abolition in 1854, the Indian head tax. War costs, the costly presence of Colombian troops, and fiscal disorder forced the republican state to appeal for the first time to foreign loans.

2. Early Post-Independence Debts

The first foreign loans of a total amount of £ 1,816,000 were raised in London in 1822 and 1825 and defaulted as early as April 1826.²⁰ This Anglo-Peruvian debt remained in default until 1849 when the new revenues of guano, a fertilizer and export product in growing demand in European agriculture, allowed sufficient funds for the conversion (refinancing) of the 1820s debt which by 1849 had accrued to £ 3.7 million. The early recourse to foreign public credit resulted in failure due to an excessive optimism with regard to the new state's capacity to repay, and the political and military pressures of the struggle for independence. After the 1826 default the state had no alternative but to rely on traditional forms of internal finance.

Between 1826 and 1849 the Peruvian state, which lacked resources and foreign credit, depended on a series of emergency financial mechanisms (merchant forced loans and *abonos*, or advanced payments of customs rights)²¹, and internal, privi-

19 Quiroz (1987: 29-30); Engelsen (1977: 10); Burga (1976: 148). Some of these properties were later given back to former owners or compensated for through internal debt mechanisms.

20 Palacios Moreyra (1983: 29-31, 38); Mathew (1970). A similar case for Mexico is analyzed by Liehr (1983).

21 Gootenberg (1989b: chap. 5); Tribunal del Consulado, "Expediente relativo a la relación de comerciantes de abono para el pago de derechos de aduana," BNL, Ms., 1866-D2810.

leged, high interest loans on *arbitrio* taxes on domestic trade. As in colonial practice, the independent state relied on the credit of monopoly-minded creditors who demanded in return the revenue of trade taxes to secure their loans. Republican governments rarely repaid these loans in cash but granted instead to their creditors several privileges concerning commercial tax revenues which slowed trade expansion. Unlike the colonial state the republican state lacked an organized tax structure. The result was an endemic practice of deficit finance.

After independence the private sector was weak but retained some influence in overall political-economic matters due to emergency finance mechanisms, budgetary problems, and political instability. State finance had become a crucial means to form client groups of support to military caudillos in competition for the control of the state. By 1837 it was still possible to find some of the late colonial creditors among those who contributed to emergency loans. One loan in that year included 328 lenders of small individual quantities between 50 and 1,000 pesos, totalling only 66,075 pesos.²²

However, in the list of the 1841-1843 loans on *arbitrios* the old names were more rare to find (Quiroz 1987: 44-45). The 1841-1843 loans on *arbitrios* reached totals of approximately 790,000 pesos, and included higher individual sums (up to 37,000 pesos) and more lenders (553) than previous emergency loans. By 1852-1855 the names of old creditors in loans on *arbitrios* had practically disappeared. This change represented a process by which the state gradually replaced its internal creditors, from traditional groups favoring protectionism, concessions and privileges, towards new groups of private lenders of merchant origin with a more liberal outlook and foreign connections (Gootenberg 1989b). The guano *consignaciones* (temporary lease or contract of guano sales abroad) served as a model for a subtle transformation in public finance.

22 Tribunal del Consulado, "Razón rectificada de las personas acotadas para el empréstito de cien mil pesos," Lima 23 Nov. 1837, BNL, Ms., 1837-D10367.

Cash advances by the first guano contractors became another source of public finance. Conspicuous among the first contractors was the British merchant house of Antony Gibbs and Sons which remained the only contractor of guano to Great Britain between 1842 and 1861 (Mathew 1981: 58-60). Continued political instability made the financing of current government expenditures through guano cash advances a customary practice.

The Peruvian state in the 1825-1849 period thus combined the eighteenth century practice of offering future fiscal revenues as collateral to domestic creditors (due to the lack of foreign credit as a result of the 1826 default) with the introduction of guano trade contracts in return for cash advances by primarily foreign merchant creditors. The state, endowed with rights inherited from the colonial past, was the sole owner of the guano deposits in the islands off the Peruvian coast. This placed the Peruvian state, controlled by military groups, despite its fiscal problems in a position of relative strength (Mathew 1981: 71). However, the state guano monopoly complicated rather than simplified fiscal debt problems by enhancing the capacity for military and bureaucratic expenditures through foreign credit. The overall linkage and redistributive effects of the guano income were thus limited (Hunt 1985: 275).

Moreover, mining finance experienced serious shortcomings during and after independence due to the weakness of private entrepreneurs, outmoded mining property legislation, and heavy taxation by the state. Foreign and native merchants supplied expensive credit in order to buy (*rescatar*) silver, the most important export product in Peru until the 1840s. The mine owners in Cerro de Pasco needed to confront credit scarcity, caudillo instability and silver price control by the state and Lima merchant creditors. The mine owners united to complete in 1839 the draining channel of Quiulacocha which had been started in 1806. However, in the 1850s and 1860s additional draining works and pumping machinery were needed but venture capital had by now concentrated on the coastal region. Only the scarcity of metallic currency in the 1870s would revive efforts to

exploit Peruvian mining. Despite the limited efforts of private finance, silver mining continued to stagnate during the rest of the century.²³

In 1850 the first effective repayment and servicing of the outstanding internal debt (*consolidación*) worked mainly in favor of merchant creditors and speculators. After three decades of neglect in the midst of economic stagnation, the state distributed six percent interest-bearing bonds among those private individuals who had reparation and credit claims against the different independent governments since 1821. The 1850 consolidation did not include the colonial debt. Only those claims by domestic creditors who had lost property (through expropriation, damage or levies) and salaries, or held any previous internal debt IOUs since independence, were entitled to be exchanged for bonds of consolidation.

Corruption was an integral factor in the whole process of internal debt acknowledgement and bond issue (Quiroz 1987: 95-108; Witt 1987: 237-240). Venal officials and their merchant partners obtained large amounts in bonds through forgery, false recognition of claims and other illegal means, and rapidly sold the tainted bonds to avoid prosecution. These persons were indicted after an official inquiry in 1855 although few of them were effectively punished.²⁴ Beneath the surface, the corruption of the consolidation process was the expression of the political struggle between the opposing clienteles of military caudillos José R. Echenique and Ramón Castilla. Popular protest and outraged public opinion arose as a result of the shady consolidation politics.

In the business realm, notable domestic and foreign merchants acquired old and new bonds at initially low quotations in order to speculate and press for the rise in their value. Merchants were also allowed to pay part of their customs dues with

23 Hunt (1985: 262-264); Quiroz (1987: 23-25); Deustua Carvallo (1986); Casós (1876: 92-103, 113); *South Pacific Times* (Callao, Sept. 30, 1875), in: CFB, vol. 3, p. 76; *Star & Herald* (London, Mar. 8, 1878), in: CFB, vol. 7, p. 176.

24 *Comisión Especial del Crédito Público, Perú* (1856); *Junta de Examen Fiscal, Perú* (1857); *El Peruano* (Lima, Oct. 31 and Nov. 4, 1857).

internal debt bonds. These privileged negotiators of bonds displaced the original creditors by buying out their claims, and thus making the consolidation measure for a better distribution of wealth in Peru ineffectual. On the contrary, an exclusive mercantile élite achieved influence through the consolidation to press for improved conditions of debt repayment and liberal economic reforms (Quiroz 1987).

In 1852 a group of mostly notable merchants controlled 38 percent of a representative sample of internal debt bonds. By 1857 their control had risen to 51 percent (see Table 3). The concentration of bonds among merchants, apart from speculation and political lobbying, was due to credit repayments and loan guarantees offered by debtors, especially indebted landowners, in the form of internal debt bonds. Additionally, the liberation of slaves was financed in 1855 by manumission bonds which were used by landowners in a similar way as the internal debt bonds. A partial financial recovery of the agricultural sector can thus be traced to the release of funds by the consolidation and manumission transactions (Engelsen 1977: 57-58; Quiroz 1987: 159-165). However, a more productive use of these funds was prevented by the absence of an institutional financial framework, which started to appear only with the first banks in the 1860s.

Several merchants and speculators involved in the consolidation participated in yet another controversial transaction: the partial conversion of the internal debt into 4.5 percent interest-bearing foreign debt bonds issued in London. Approximately 38 percent (9 million pesos) of the 24 million pesos (£ 4.8 million) total internal consolidated debt was converted in 1853.²⁵ Only a handful of well-connected merchants and speculators participated in the conversion. In 1854 some members of the London stock exchange objected to the admission of the Peruvian converted domestic bonds because "two thirds of this debt...was

25 Dancuart (1902-03,V: 46-48); Mendiburu (1959-61: 167); *El Peruano* (Lima, Mar. 31, 1857). If the converted debt to the Tacna-Arica railroad contractor Joseph Hegan (two million pesos, not included in the consolidation) is added, the amount of the conversion in 1853-1854 totals eleven million pesos (see Table 4).

made in an irregular manner through fraudulent means, by the favourites of the present government."²⁶ However, native and foreign creditors in Lima petitioned jointly in favor of servicing both the converted and non-converted internal debt without exception. President Castilla complied in 1857, pressed by his rich supporters and by internal political difficulties.²⁷ Despite the proven legal irregularity of the transaction, the Peruvian government continued honoring the interests and amortization (four percent sinking fund) of the converted debt through its financial agents in London, Antony Gibbs and Sons.

Table 3: Social Background of Major Consolidation Bondholders, 1850-1857

Bondholders	1850-1852			1857		
	No.	Amount ^a	%	No.	Amount ^a	%
1. Merchants	45	6.05	38	25	2.36	51
2. Landowners	21	2.75	17	4	0.28	6
3. Govt. officials	21	2.05	13	-	-	-
4. Urban owners	12	1.93	12	4	0.35	8
5. Munificent inst.	2	0.36	2	2	0.27	6
6. Ecclesias. inst.	1	0.21	1	2	0.24	5
7. Professionals	1	0.04	-	1	0.07	1
9. Others ^b	5	1.57	10	-	-	-
10. No information	18	0.97	6	16	1.04	23
Total	126	15.93	100	54	4.60	100
(% of total debt)		(66)			(42)	

a Millions of nominal pesos in *vales de consolidación*.

b Including debts to Chile and heirs of Simón Bolívar.

Sources: Quiroz (1987: tables 8 and 19); "Libro de la deuda interna consolidada..." and "Liquidación de intereses...", AGN, Libros Manuscritos Republicanos, H-4-1966 and H-4-2031.

26 "Objections of Thornton, Richmond and others that it is not advisable to admit domestic debt of any nation and particularly of Peru," 28 Aug. 1854, GLL, Hambros Bank Ltd., Ms. 19,156.

27 Quiroz (1987: 62-63); *El Peruano* (Lima, Feb. 19, 1857).

Table 4: Estimated Peruvian (Internal and External) Public Debt, 1821-1880^a (Millions of Pesos of 1850)^b

Years	Mer- chant ^c	Arbi- trios	Conso- lidat.	Manu- mis.	Banks	Total Inter- nal	Guano	Loans	Total Exter- nal
1821	0.5					(14.5) ^d			
1825						"		9.1	9.1
1830	1.2					1.2		"	"
1835	0.2	0.4				0.6		"	"
1840	0.7	0.7				1.4	0.3	"	9.4
1845	1.1	1.0	4.8			6.9	0.2	"	9.3
1850		1.3	6.6			7.9	1.8	19	20.8
(1852)			(24.0)			(24.0)		(11) ^e	
1855			12.4	7.9		20.3	2.0	25	27
1860			7.8	1.8		9.6	5.9	27.5	33.4
1865					(12.5) ^f	12.5		45	45
1870								60	60
1875					11	11		185	185
1880					48	48		250	250

a Approximations to nearest year, according to source used.

b In 1862 Peruvian currency changed to *soles*. To account for depreciation, figures in table are adjusted to exchange rate £ 1 = 5 *pesos*.

c Includes loans and abonos.

d Includes colonial debt and secuestros.

e Conversion of internal to external debt 1853-54.

f Guano advances.

Sources: Gootenberg (1989b), Quiroz (1987), Mathew (1981), Palacios Moreyra (1983), Dancuart (1902-03), Marichal (1989), Yepes del Castillo (1972), Camprubí Alcázar (1957).

The conversion of the internal to external debt reinforced the new financial strategy away from internal finance and towards renewed external finance. In 1849 the three percent deferred Anglo-Peruvian debt had been settled and was substituted later, in 1853, by new 4.5 percent bonds brokered by the London firms

Cristobal de Murrieta and Co. and C. J. Hambro and Son.²⁸ In short, due to corruption and conversion measures the internal debt mechanism was thoroughly ruined as a potential local and democratic vehicle of public finance for future purposes. In consequence, the Peruvian state renewed its reliance on foreign debt mechanisms and only used internal indebtedness in critical situations with mostly ruinous effects on the national economy and the private sector.

A detailed treatment (Quiroz 1987) of the internal debt arrangement and repayment between 1850 and 1865 challenges the point of view of Bonilla (1974), Cotler (1978) and Tantaleán (1983) who consider that the consolidation and conversion were measures designed to fund a new domestic élite for future guano rentier ventures. On the contrary, evidence shows that the funds released by the consolidation were rapidly concentrated among creditor merchants despite official designs to benefit political clientele. These merchants had previous accumulation patterns and foreign connections backed by trade and speculation in a capital- and currency-scarce economy.

Two important local merchant creditors were the Chilean Pedro Gonzales Candamo and the Spaniard Julián Zاراcondegui.²⁹ They participated intensely in the consolidation and conversion deals, engaged in import and credit activities and kept very good friends among the military caudillos. Zاراcondegui was also very active in politics and merchant guild leadership. These men contributed very little to the formation of a national élite because their main motivation under the circumstances of a weakened private sector was individualistic rather than group or class oriented. A comment by a fellow merchant and partner in 1858 is quite revealing:

Don Pedro Gonzales Candamo had a well known tactic in Lima's commerce of obtaining all possible gains and guarantees without

28 Correspondence, prospectus, application, allotment lists, receipts relating to 1853 substitution, GLL, Hambros Bank Ltd., Ms. 19,156.

29 Clavero (1904); Quiroz (1987: 191-197); Zاراcondegui & Co. went bankrupt in 1874, Camprubí Alcázar (1957: 52-53).

labour nor responsibility in capital concerns....Don Julián Zaracondegui...wanted absolute control and no scruples in business management....señor Candamo usually took a revolver with him in his rare visits to Zaracondegui's office, and señor Zaracondegui had his always ready: this was the measure of understanding and harmony in which my two partners lived – two of the highest persons in Lima's trade (Argumaniz Muñoz Ms. 1858-68, III: 5, 14).

These two merchants had interests in the first guano contracts as well as in all kinds of other trade business, initial railroad investment, and even some failed manufacturing ventures. Due to the existing capital and monetary scarcity before 1850 they had granted loans at between 18 and 24 percent annual interest, and negotiated their own drafts with success (Camprubí Alcázar 1957: 3-4; Rodulfo 1861). They were good friends of President Castilla, the caudillo who, with the help of guano contracts and revenues, centered government control in Lima against regional atomization.³⁰

Despite the individualism of Gonzales Candamo and Zaracondegui, a second generation of assertive private capitalists appeared in the 1860s and 1870s.³¹ Their main economic activities were guano contracts, trade, commercial agriculture, mining and eventually banking. These men played an important role in the channelling of funds into the sugar, cotton and nitrate export sectors through note-issuing as well as in the commercial and mortgage banks which appeared in Peru since the early 1860s (Greenhill and Miller 1973; Bonilla 1986).

30 Regal (1967); Dulanto Pinillos (1945: 128); Clavero (1904: 38); AGN, Protocolos notariales, Felipe Orellana, 1865, no. 500, f. 224v.

31 Men like Felipe Barrera, José Canevaro, Carlos Delgado, Felipe Gordillo, Manuel Pardo and Clemente Villate: Mathew (1981: 186-189, 194).

3. The Guano Age Private Banks

If there had not been banks, if "credit" had not been used, if transactions had been limited to what was permitted by the metallic currency, would agriculture and trade have achieved the level they have today? (Blume 1876: 12).

The Guano Period has been defined as a case of developmental "failed opportunity."³² However, the guano income had some economic repercussions which have not been sufficiently analyzed. Probably the most important effects of the private use of guano income by the 1860s was a noticeable agrarian recovery and the institutionalization of credit in banks, which provided much needed financial and monetary instruments and contributed to the transfer of funds between the commercial and export sectors of the Peruvian economy.

The first banks appeared in Lima due to the enhanced financial and monetary needs of commercial activities during the mature phase (1860-1879) of the Guano Period. The use of commercial bills (*vales a la vista*) had increased considerably among Lima merchants to compensate for monetary scarcity. The chronic export of silver currency due to trade imbalances and the rise of the international price of silver since 1848 had reinforced the circulation of debased national and Bolivian coins (*moneda feble*).³³ Monetary instability thus contributed to the circulation of commercial bills which were used by merchants as a more reliable means of payment (Rodulfo 1861: 8-10). However, in the 1860s the circulation of bank notes freely convertible into silver provided a better institutional guarantee for monetary payments than the commercial bills. Additionally, the national currency was reformed in 1855, 1857 and 1862-1863 in order to discourage its exportation and to withdraw the *moneda feble* from circulation (Moreyra-Paz Soldán 1962-63; Conversión, Perú 1864: 6).

32 On this issue see Méndez G. (1987) and subsequent discussion; Rodríguez Pastor (1989); Engelsen (1977: 52-57).

33 E. M. (1859); Quiroz (1987: 117-119); Moreyra-Paz Soldán (1962-63).

The first note-issuing bank, the Banco de la Providencia, started its activities in Lima in 1862. Soon other issuing banks appeared, the most important being the Banco del Perú and Banco Nacional. These banks issued their private notes which circulated as money without regulation or control by the state.

Local banks granted commercial loans and discounted bills with the guarantee of either two well-established commercial co-signers or with one co-signer and sufficient collateral in the form of public debt bonds, stock of guano consignment companies, IOUs of third persons and other stock and financial assets (which were kept in custody by the bank until the loan was fully repaid). As a consequence of these financial activities approximately 42 million *soles* (S/.) in stock and bonds existed in the Lima capital market in 1874. These securities included the stock of 12 banks and various companies: 3 insurance, 4 railroad, 4 gas, 3 guano consignment, 2 immigration, 3 nitrate and 9 various other companies (Camprubí Alcázar 1957: 119-120).

Under this initial liberal banking system, however, private bank administrators had ample opportunity to abuse the confidence of depositors and stockholders. Domingo Porras, manager of the Banco de la Providencia, led his institution into severe liquidity problems in February 1866 when it had to suspend operations until 1867. Porras had illicitly appropriated cash, disguised withdrawals with valueless or false credit documents, and faked the withdrawal from circulation of excess notes, for a total amount of S/. 747,934 (40 percent of the bank's capital!). Protests by the bank's clients followed, demanding appropriate backing of bank notes, increased official supervision and legislation to limit indiscriminate issues by banks.³⁴ "Frankly," wrote a merchant in 1868, "except for the Banco del Perú, the other banks do not inspire great confidence because their managers are young men without either capital or experience" (Argumaniz Muñoz Ms. 1858-1868, IV: 5).

Other critics blamed local banks, especially the Banco del Perú, of forming a monopoly, or "financial dictatorship," led by

34 Banco de la Providencia (1868); Una víctima de la Providencia (1866).

the joint interests of guano contractors and bankers who took advantage of a lack of appropriate banking legislation.³⁵ The Banco del Perú, went through difficult times due to the sizeable indebtedness of one of its important clients, the Eten-Ferreñafe Railway Company. This company had raised S/. 720,000 in public stock and S/. 600,000 in additional eight percent interest bonds with the mortgage of its tangible assets as a guarantee. Among the creditors of the railroad firm there were important directors of the Banco del Perú who, in 1872, granted an exceptional one-year term loan and additional current account credit for a total of S/. 643,000 (16 percent of the bank's capital). These loans had low profit expectations due to competition from a rival railroad and the poor financial situation of the Eten-Ferreñafe Company. By 1876 the Banco del Perú was still debating whether it should become the owner of the Eten-Ferreñafe Company (Banco del Perú 1876).

However, despite such cases of dishonesty and nepotism among managers and directors, the issuing banks of the Guano Age filled an important vacuum and assisted the mobilization of capital within the Peruvian export economy. Furthermore, mortgage banking credit aided the revitalization of the post-1840 coastal agriculture.

In the late colonial times traditional ecclesiastical credit in the form of *censos* had provided support to an aristocratic landowning class only marginally interested in commercial agriculture. The Bourbon reform of a portion of ecclesiastical liens offered more opportunities for landowners to exploit landed estates commercially (as in the case of the landowning families Orué y Mirones and Carrillo de Albornoz). Peruvian sugar then became a strategic merchandise that consolidated the Pacific trade with Chilean wheat. This trade pattern continued in the early post-independence period, although with serious limitations.³⁶

35 Cisneros (1939: 227-228), reprint of *El negociado Dreyfus* (Le Havre, 1870).

36 Pando (1833); Gootenberg (1989b: 34-46); Engelsen (1977: 31-33); Flores Galindo (1984: 48-53).

With independence, the landowning class lost most of the prestige and social position which it held during the colonial period. This was due to expropriation, scarcity of a slave labor force, foreign markets' limitations, and credit and capital scarcity in a depressed economic situation. Hacendados were forced to depend on very high credit rates when censo and family credit were not available. The surviving ecclesiastical institutions continued to lend at low interest rates (six percent per annum) during the post-independence period – but only marginally to agriculture and more to urban properties. Few hacendados were able to provide mortgage loans to others at 12 percent annual interest. Moreover, many landowners could not raise funds because of legal uncertainties over their property titles caused by lien burdens and earlier expropriations (Engelsen 1977: 10, 18-19, 21).

On the other hand, merchants provided expensive credit through "consignment" contracts by which the merchant obtained the right to the hacendado's crop in exchange for a short-term credit at 18-24 percent annual interest, or through direct loans at 24-30 percent annual interest. By the 1850s consignment credit had become a norm in order to commercialize sugar and cotton crops, as exemplified in the close business relationship between lender Pedro Gonzales Candamo and hacendado Fernando Carrillo de Albornoz, and Zacacondegui's cotton consignment deals with Ramón Aspíllaga (Quiroz 1987: 155-157; Argumaniz Muñoz Ms. 1858-68,III: 16).

The 1850 consolidation of the internal debt nominally provided the landowners with up to three million pesos in bonds as compensation for expropriations and destructions that had occurred during the first decades of independence. However, most of these funds – as we have seen – passed into the hands of their merchant creditors to repay previous debts or as collateral for new loans (as in the credit granted by Lachambre and Company and Green Nicholson to Domingo Elías) (Engelsen 1977: 144-145). Landowners thus reduced their participation among the major active internal debt creditors from 17 percent

in 1850-1852 to 6 percent in 1857 (see Table 3). The 1855 emancipation of the slaves additionally provided landowners with up to eight million pesos in manumission bonds which were also used to repay merchant creditors and to replace slave labor with an indentured labor force (Quiroz 1987: 159-165; Engelsen 1977: 58-59).

However, the decisive contribution to the provision of credit to commercial agriculture was the appearance of the first mortgage banks. These institutions allowed a relative diversification away from guano business among private entrepreneurs at a time when, as a consequence of the U. S. Civil War the international prices of cotton were on the increase (Stewart 1970: 25; Cisneros 1939: 23-24). Research in notarial archives established that the first mortgage bank, the Banco de Crédito Hipotecario (1866), lent during the 1867-1881 period approximately S/. 12 million, mostly to medium and large estates specialized in cotton and sugar production in the northern and central coastal valleys. A second mortgage bank, the Banco Territorial Hipotecario, was established in 1870. These mortgage banks preferred to grant loans to rural commercial properties over urban properties at a ratio of 3.5 to 1. Note-issuing banks also lent to the agrarian commercial sector, especially in the boom years of 1865-1873. Thus, by the late 1860s the interest on credit to agriculturists was lowered from the customary merchant consignment of up to 18 percent to the banking mortgage of 12 percent (Engelsen 1977: 167-179; Argumaniz Muñoz Ms. 1858-68, III: 6).

The legal basis for the mortgage banks' establishment had been prepared with the completion of the republican disentailment legislation which freed landed properties from censo obligations. As early as 1838 the state had decreed the substitution of lien credits for internal debt bonds, but little was done in practice. In 1825 the interest on censos (*rédito*) was reduced from five to two percent; thereafter it oscillated between three and five percent. Later, between 1851 and 1855, the state accepted internal debt bonds to redeem censos for the amount of

404,677 pesos (Quiroz 1987: 88-90). In December 1864 a new law was promulgated to allow property owners (*censatarios*) to convert up to 75 percent of their censo debts to 12 percent interest-bearing state bonds (*cédulas de reconocimiento*). The state thus assumed the censo debts and became the exclusive *rédito* debtor to censo holders (*censualistas*), accounting for a total of S/. 800,000. This measure encouraged the subsequent sale and speculation with the 12 percent interest-bearing bonds.

In January 1865 the Lima ecclesiastical chapter (*cabildo eclesiástico*) protested against the 1864 law arguing that it was neither constitutional nor economically sound (because it weighed heavily on the state's finances), and unjustly damaging to ecclesiastical property.³⁷ Similar protests had occurred in 1808 against the Bourbon amortization process.

Conveniently soon after the application of the *redención* law, in August 1866, the most important lenders and commercial landowners subscribed S/. 1.5 million in capital stock for the formation of the Banco de Crédito Hipotecario – despite opposition by a sector of the press. The enemies of this bank argued that it would lend at high interest rates. The bank granted 20-year loans on urban and rural property at 10.5 and 12 percent annual interest, and issued mortgage bonds (*cédulas hipotecarias*) bearing six and eight percent annual interest. The mortgage debtors thus received the loans in the form of *cédulas* and were able to obtain cash by selling the bonds at current quotations to the public (approximately 88 percent of their nominal value). The bank's gross profits arose from the difference between the loan interest and the *cedula's* interest and between the nominal and current value of the bonds.³⁸

In 1868 a project to form a state-sponsored mortgage bank was published in a clear attempt to encroach on the agricul-

37 Cabildo Metropolitano, "Representación elevada al Arzobispo de Lima Dn. José Sebastián Goyeneche y Barreda," Lima, 5 Jan. 1865, BNL, Ms., 1865-D8449; García Jordán (1988); *El Peruano* (Lima, Dec. 17, 1864).

38 Camprubí Alcázar (1957: 61-64); Tribunal del Consulado, "Expediente relativo a la suscripción de accionistas del Banco de Crédito Hipotecario," Lima, 27 Aug. 1866, BNL, Ms., 1866-D2809.

tural consignment credit business of merchants by offering lower interest rates. This project did not succeed due to loopholes in the legislation concerning property rights and judicial procedures for executive action on the assets of defaulted debtors (Santos Morales 1868).

The Banco de Crédito Hipotecario also granted loans to pay previous mortgages, for the purchase of properties, and for productive improvements. Between 1870 and 1877 one debtor, María de Arauzo, an urban proprietor, renewed her loan with the bank three times.³⁹ Mortgages were also granted in some provinces (La Libertad, Ancash, Arequipa, Ica y Moquegua). As a result, the bank contributed to the doubling of the price of agricultural land for sugar production. Despite the political instability which almost forced the liquidation of the Banco de Crédito Hipotecario in 1867, the Guano Age mortgage banks succeeded in establishing significant links between the agrarian and commercial sectors at least until the beginning of the financial crisis of 1873-1881. As a contemporary analyst argued, the competitive environment of Guano Age liberal banking seemed not to have been responsible for the financial crisis. (On the contrary, the crisis could have worked as a safety mechanism to expel inefficient institutions from the market.) It was rather state intervention and its foreign indebtedness which precipitated such a crisis and bailed out the inefficient and unsound firms (Blume 1876: 11).

4. Foreign Public Debt Problems, 1850-1879

The liberal conditions of the early Peruvian private banking system evolved alongside the state monopoly over guano deposits and deficit-led fiscal finance. This contradiction at the core of the transitional export economy continued to place serious limits on the development of a strong private sector despite the opportunities offered by the guano income.

39 "Obligación de la Sra. Da. María de Arauzo al Banco de Crédito Hipotecario," 17 Mar. 1870, BNL, Ms., 1870-D12763.

Until 1869 the external public debt was kept under relative control by strict guarantees on guano revenues administrated by private financial agents in monopolistic conditions. Between 1849 and 1861 Antony Gibbs and Company had made sure to satisfy interest and amortization payments to foreign creditors.⁴⁰ Such promptness was in the interest of political stability and international support for governments which strove to maintain good national credit abroad.

The native guano contractors which replaced Gibbs in 1861 also hired the services of a foreign firm, Thomson Bonar & Company, to handle the Peruvian external debt in London. The external debt conversions and loans of 1862 and 1865 provided fresh money for current governmental expenditures. The loans brought a wave of controversial allegations. One negotiator of the 1865 loan of £ 10 million, the liberal future President Manuel Pardo, had family ties with the native partners of Thomson Bonar. Moreover, the London firm was sued by the Peruvian government in 1872 for charging unfair commissions of up to £ 46,700 in the brokerage of the 1862 and 1865 loans.⁴¹

Guano contractors charged up to 35 percent in interest, commissions and other charges on short-term loans advanced to the government between 1864 and 1869. The state remained in constant need and some officials thought that private native and foreign lenders were taking advantage of the state (Cisneros 1939: 213-221, 365). By 1869 the fiscal guano revenues had achieved very little in terms of domestic infrastructure and development while public deficit had amounted to S/. 17 million. Most of the proceeds of the short and long-term loans were consumed by bureaucratic and military expenditures and the costs of commissions and interests (Hunt 1985: 275-276).

40 "Documentos de las operaciones financieras realizadas entre el Gobierno peruano y la Casa Gibbs," Lima, Aug. 1858, BNL, Ms., 1858-D2214.

41 Ruza (1872), citing earlier criticisms against Pardo by Bogardus. Also "Sobre el juicio seguido por la Inspección Fiscal del Perú en Europa contra los Sres. Thomson Bonar y Cía. relativo al cobro indebido de comisiones por empréstitos correspondientes a los años 1862-65. París 26 enero 1874," BNL, Ms., 1874-D3254.

Part of the problem of the public sector's dependence on the advances of the guano contractors and external bonds credit was the undeveloped tax structure. Customs and silver taxes were insufficient to provide an internal autonomy of revenues. Guano was therefore increasingly used as a fiscal guarantee to attract external credit. As early as 1855, tax reformists had warned against the excessive reliance on guano revenues (Basadre 1971: III). Moreover, the Indian poll tax had been abolished in 1854. Also, since the abandonment of internal debt strategies by 1850-1854, auxiliary trade taxes had been curtailed. However, any small attempt at introducing tax reforms and taxes based on income was vehemently repudiated by different social sectors. In 1866, the plan of the Minister of Finance, Manuel Pardo, to institute new taxes on capital and labor suffered relentless attacks. Pardo's original tax reform achieved only the establishment of new export and indirect taxes which remained in use until the 1890s.⁴²

The liberal revival of 1866-1868 ebbed and was replaced by a traditionalist reaction led by colonel José Balta who became President in 1868. This was, however, a conservative government with a difference. Balta adopted an apparently "developmental" attitude. His strategy and that of his Ministers of Finance was to augment the external debt to a disproportionate level with respect to the increasingly unreliable but still mortgageable guano revenues. The justification for this rested on the rejection of the guano contract system and the need to develop a national railroad system. The burden of the increased foreign indebtedness would be simply transferred to the next governments. In only one year, between 1871 and 1872 the Peruvian external debt increased dramatically from S/. 90 million (£ 18 million) to S/. 185 million (£ 37 million); the debt had been only £ 9 million in 1865 (Palacios Moreyra 1983: 190-197) (see also Table 4). The annual service of the external debt thus in-

42 López (1947: 3, 13-18); San Cristóbal (1945: 14, 19-24); Manuel Pardo, *Memoria que el ex-Secretario de Estado en el despacho de Hacienda y Comercio presenta al Jefe Supremo Provisorio de la República* (1867), in: López (1947: 327-399).

creased to S/. 13.5 million in 1872, clearly rendering insufficient the S/. 15 million in guano revenues of that year (Dulanto Pinillos 1947: 104).

The origin of the 1870s debt spiral was the signing of the Dreyfus contract in 1869. The traditionally-minded Minister of Finance Nicolás de Piérola set the tone by displacing the domestic guano contractors and bankers from the administration of guano revenue funds. The native capitalists were replaced by a single French firm, Dreyfus Frères et Compagnie, which was contracted to sell two million tons of guano in return for advances to the deficitary government. The Peruvian Congress sanctioned that the Dreyfus contract exceeded the congressional authorization for deficit arrangements. The displaced contractors, the "*hijos del país*," fought the new contract in a national court which was powerless against the executive decision.⁴³ The head of the French house, Auguste Dreyfus,⁴⁴ had financial backing from a group of bankers in Paris (Société Générale, Leiden Premsel) and London (J. Henry Schröder and Company). Huge advances were supplied by the speculative Dreyfus who strove to monopolize the guano business at all costs. Dreyfus also became the financial agent of the Peruvian debt in Europe (Bonilla 1974: 69-116). Unlike Gibbs, Dreyfus was not careful in calculating safe guano guarantees for the expanded credit to the Peruvian government.

Piérola has been seen by sympathetic historians (Bonilla 1974: 74-76; Ulloa 1949; Dulanto Pinillos 1947) as a popular leader who was able to displace a rentist élite which took advantage of fiscal business to advance their own interests. How-

43 "Sobre las medidas a adoptarse para cubrir el déficit del Presupuesto de la República," Lima, 7 Sept. 1869, BNL, Ms., 1869-D2655.

44 On the origins and credit worthiness of Auguste Dreyfus' business in Peru one can read the following report of the Lima branch of Antony Gibbs & Sons to their London seniors on 12 Aug. 1863: the Dreyfus' house "have hitherto done [import] business through Templeman & Bergman...it is now their intention to set up store separate from T & B. We don't know what means they may have, not in fact much about them but we should recommend caution in case they should enter into business relation with you," in: "Private information book on merchant firms, chiefly foreign 1859-1902," GLL, Antony Gibbs & Sons, Ms. 11038B.

ever, he can be seen in a different light if we consider his conservative background. Piérola was the son of a Spanish educated scholar who turned politician and state bureaucrat and served as controversial Minister of Finance under President Echenique in 1853. Before occupying the same post as his father did sixteen years earlier, the young Piérola had been a seminarist of traditional education and convictions closely linked to the conservative caudillos Echenique and Balta (Dulanto Pinillos 1947: 57-61). Piérola became the civilian heir to the caudillo tradition which was bitterly opposed to the liberal civilianist party and its leader, Manuel Pardo. Unlike Pardo's reformist attempts, Piérola was in favor of continuing foreign debt finance in order to maintain the independence of fiscal finances and his political clients' manoeuvres.⁴⁵

According to Piérola's wishes an external loan contract was signed with Dreyfus in 1870 for almost £ 12 million. This loan at six percent interest was mainly used to finance the railroad projects of contractor Henry Meiggs, a yankee Pizarro, for the lines Lima-Oroya and Mollendo-Arequipa-Puno. According to a British financial review in 1874, the Peruvian railroad system was "unsurpassed in 'grandeur', costliness, and total hopelessness of profit returns."⁴⁶ Despite the increase in the foreign debt as a result of the 1870 loan, Piérola embarked in 1871 on another loan contract with Dreyfus for essentially conversion purposes.

In the minutes of a meeting of the Council of Ministers in July 1871, handwritten by Piérola himself, one can read the persuasive and imperative arguments which he used to convince the other ministers to approve a new loan. He argued that the conversion of previous foreign public debts (the 1865 loan, the 1866 Chile-Peru debt, and the six percent interest bonds of 1870 floated at a price of 82.5 percent) was possible

45 Later on Piérola had interests in the Banco Nacional, financed by Dreyfus and competitor of the Banco del Perú which was co-owned by Manuel Pardo, Piérola's political enemy, Ulloa (1949: 84-90); Camprubí Alcázar (1957: 90-96).

46 *Stock Exchange Review* (London, June, 1874), in: CFB, vol. 1, p. 242.

and urgently needed. The reasons given were (a) to meet debt services and current expenditures on public works and the police; (b) to allow time for the expected proceeds from the railroads to materialize; and (c) because there was no legal impediment for including a conversion loan in the £ 15 million authorized by Congress in February 1871. This authorization was earmarked for railroad and irrigation works only. According to Piérola, since the interest of the conversion loan would be one percent lower than that of 1870, it was therefore within the congressional condition of contracting advantageous public loans!⁴⁷ In accordance once again with Piérola's designs a new loan contract was signed with Dreyfus in July 1871. However, the sudden interruption of the negotiations days later on the orders of President Balta brought the immediate resignation of Piérola. It is not clear whether the disagreement between the President and his minister was due to personal interests involved in the loan negotiations.

Only in December 1871 was a new deal arranged with Dreyfus, without Piérola's participation, which raised the loan amount to £ 36.8 million (Palacios Moreyra 1983: 128-132). This mammoth "consolidated" loan bore five percent interest and was floated at the low price of issue of 77.5 percent.⁴⁸ Everything was set to raise the funds in the London, Paris and Amsterdam markets early in 1872 when a letter by the Peruvian citizen Carlos Elías was made public in European newspapers claiming the illegality of the loan transaction and the impossibility of its repayment by a poor country such as Peru. Distrust quickly spread among bankers and investors and, consequently, the loan operation stumbled and came to a halt.⁴⁹ Only £ 15 million were initially allowed to be floated by the London stock exchange committee. The remaining portion was arduous allocated during the next months.

47 Consejo de Ministros, 13 July 1871 session, BNL, Ms., D4674.

48 "Peruvian Government 5 % consolidated loan 1872," prospect signed by J. Henry Schröder & Co., in: CFB, vol. 1.

49 "Memorandum de la operación financiera de 1872 de £ 36,000,000," BNL, Ms., D4655.

Observers commented that the 1872 loan "cannot be termed a satisfactory success. Bonds have been sold, it is true, thanks to the vigorous and untiring efforts of the syndicate [backing the loan]...but the figure at which the loan had been floated in the greater part is not flattering to the credit of the republic."⁵⁰ It is precisely in 1873 that the London bondholders began to protest against the "unjustifiable depreciation" of the Peruvian external bonds.⁵¹ The quotation of Peruvian foreign loan bonds in London had been already declining by 1872 together with other Latin American bonds (Maiguashca Ms. 1967; Marichal 1989: 108-111).

Contemporaries had no trouble pointing out the flaws in the use of the Peruvian foreign debt to cover current expenditures, refinance previous loans, and carry out colossal railroad projects of uncertain returns. The increased foreign debt also created wider opportunities for corruption – a constant though "invisible" factor in Latin American public indebtedness. The politicization of the public debt became a serious problem, due to frequent deadlock in Congress between opposing sides and the impulsive actions of the executive. It was only a matter of time until private banking capital was "pulled into the unfortunate destiny of public finance" (Camprubí Alcázar 1957: 125, 145-156). As one observer commented in 1876:

It has been several years now that Peru has been slipping towards the abyss....What has pushed Peru in that direction? The careless loans, the banking mania, the railway mania and, above all, the witchcraft remedies used against such follies and others; in a word, the contempt towards mercantile principles (Blume 1876: 3).

The sudden inflow of foreign capital had triggered a temporary banking boom between 1869 and 1872. In 1869 there were only three banks of issue (one was the Banco del Perú, co-owned by Pardo) and one mortgage bank. However, in 1873 there were sixteen main bank offices (13 issuing, two mort-

50 *The Pacific Mail* (Dec. 1, 1873), in: CFB, vol. 1, p. 54.

51 *The Pacific Mail* (Dec. 1, 1873), in: CFB, vol. 1.

gage, one savings), six branches and five agencies (Camprubí Alcázar 1957: 119, 217). Discount rates declined from 15 percent in 1869 to 6-8 percent depending on the maturity, which could be of up to six months. Camprubí considered this to be a banking "hypertrophy" out of proportion with the Peruvian economy (Camprubí Alcázar 1957: 129).

Serious domestic financial and monetary problems appeared coincidentally with the world recession of 1873. According to Pardo, Peru experienced monetary difficulties since 1872 due to inflationary pressure linked to foreign indebtedness.⁵² The resulting tendency was an outflow of silver currency due to trade deficits, and therefore the issuing banks could not easily pay note holders with silver currency and provide bills of exchange on London (Blume 1876: 7-8). In August 1875 the domestic banks had to suspend the specie payment of their note obligations. The causes of the suspension were observed to be caused by "the extreme scarcity of exchange on Europe which rendered it absolutely necessary for merchants to make their remittances in silver coin, bar-silver or foreign gold."⁵³ Foreign companies faced, apart from depressed commercial conditions, difficulties in remitting their considerable profits abroad (in some cases profits of up to 60 percent annual average for the 1868-1873 period).⁵⁴ A foreign merchant wrote in March 1876:

The state of business matters in general shows no signs of improvement and sales are extremely dull. Were it not for the large exportation of sugar it would be impossible to obtain remittances as with the exception of a small quantity of bar silver there is nothing else in the open market to draw for.⁵⁵

Paradoxically the liberal President Manuel Pardo had to deal with the imminent banking and fiscal failure of 1875-1876. The

52 *The Financier* (Sept. 22, 1874), in: CFB, vol. 1.

53 *Star & Herald* (London, Aug. 21, 1875), in: CFB, vol.2, p. 342.

54 Profit earnings of Huth Grunning partnership, 1868-1873, GLL, Frederick Huth & Co., Ms. 10, 702/4.

55 Graham Rowe to F. Huth & Co. (London), Lima 27 March 1876, GLL, Frederick Huth & Co., Ms. 10, 703/1.

public debt service, including amortization was suspended in January 1876 when new refinancing loans failed to materialize. The quotation of Peruvian bonds plunged from 77.5 percent in 1875 to 17.15 percent in 1876.⁵⁶ Under fiscal pressure the state began to use the pledged guano revenues for current expenditures after the debt default. Public works were paralyzed. The contraction of foreign credit led to a dramatic retreat of liberal financial conditions and of stable monetary policies. Banking regulation had been introduced in 1873. Moreover, a thorough state intervention in banking matters was targeted as a means to confront the financial crisis.

The private banking sector was forced to assist the state in the critical 1875-1879 period, beginning with an agreement between the government and the banks in September 1875.⁵⁷ The state guaranteed the banks' monetary issues with internal debt instruments, the banks lent S/. 18 million to the state in rapidly depreciating paper currency. Bank notes were declared legal tender of mandatory inconvertible circulation, backed by valueless consolidated internal debt instruments (Blume 1876: 8). The establishment of a central bank was criticized and feared.⁵⁸ Ultimately in August 1877 the state converted the private bank notes into a national currency, the *billetes fiscales*, which continued to depreciate even further (Camprubí Alcázar 1957: 321-329). The banks continued lending to the state until 1880. Thus public and narrow private interests found new ways to cover up their respective inefficiencies.

Inflated internal credit thus replaced the lack of foreign capital inflow. Absolute fiscal and banking collapse was avoided but inflation loomed together with currency depreciation as well as long- and short-term credit conditions foundered. As a press reporter informed in 1878 "Peru suffered from the necessary consequences of importing larger quantities of merchandise than she had produced to pay for, and of having nothing

56 *The Bullionist* (Apr. 15, 1876), in: CFB, vol. 4.

57 *South Pacific Times* (Callao, Sept. 10, 1875), in: CFB, vol. 5.

58 *South Pacific Times* (Callao, Oct. 28, 1876), in: CFB, vol. 5, p. 204.

but a depreciated currency with which to make good the balance of trade against her."⁵⁹

Another example of Pardo's interventionist policy was the expropriation of nitrate properties in southern Peru in March 1875. Foreign and native private owners were affected by the measure. A stock company had been jointly formed in 1873 by the native banks Banco del Perú, Banco Nacional and Banco de la Providencia to administrate nitrate commercialization at officially fixed prices.⁶⁰ Private interests collided with this attempt to establish another public monopoly. Nitrate certificates were then issued by the state in payment for the expropriation of nitrate fields in 1875. The associated banks also administrated and financed the expropriation process through loans to the government and subcontracting the sale of monopoly nitrate to Antony Gibbs and Sons.⁶¹ At the end of Pardo's term in 1876 his administration and interventionist policies were bitterly criticized in Peru and abroad.⁶²

Between 1874 and 1876 there had been frustrated attempts to refinance the external debt. During the administrations of Presidents Manuel Pardo and Mariano Prado (1876-1879) the foreign debt renegotiations failed to avoid the approaching financial collapse. After a series of fruitless deals with Dreyfus and the Société Générale, Prado signed in 1876 the Raphael contract under pressure from the Council of Foreign Bondholders and its chairman Charles Russell (Basadre 1981: 85-88). The contract established that a foreign creditor company, the Peruvian Guano Company, would administrate the guano income to service the defaulted Peruvian debt. Legal conflicts

59 Article of the *South Pacific Mail*, reprinted in the *Brazil & River Plate Mail* (London, July 6, 1878), in: CFB, vol. 7, p. 304.

60 Bancos del Perú, Nacional del Perú y La Providencia, "Bases que proponen para el establecimiento de una sociedad que administre el Estanco del Salitre y del contrato que debe regir con el Supremo Gobierno," Lima, July 1873, BNL, Ms., 1873-D3504.

61 Gibbs & Sons to President of Associated Banks Delegates, Lima, 2 Dec. 1876, GLL, Antony Gibbs & Sons, Ms. 11,121.

62 "Que no hay remedio?..." [1874], in: Cisneros (1939,III: 361-378); *Star & Herald* (London, Aug. 21, 1876), CFB, vol. 5.

with Dreyfus, who also had rights over the guano revenue, resulted in a difficult implementation of the Raphael contract.⁶³

However, there were still hopes that a transformation of the export economy could lead to recovery and renewed possibilities of development. Meiggs had found ingenious ways of financing his railroad, mining and nitrate projects with the scrip of his Public Work Company (totalling S/. 5.3 million) which quoted higher than the *billetes fiscales*. National currency in circulation was later limited to only S/. 20 million.⁶⁴ Income from sugar exports eased the exchange crunch by December 1876. Exchange improved from 18 - 20 d. per sol to 22 - 24 d. in June 1877.⁶⁵

The War of the Pacific removed all remaining hopes of recovery. The Peruvian Guano Company and the Committee of Peruvian Bondholders made separate financial arrangements with Chile, thus leaving Peru in the middle of the war without financial resources from its guano income. In a stern and conservative British newspaper the epitaph of the Peruvian financial and military disaster was written in 1879: "After the shameless way in which Peru has played fast and loose with her creditors, she can not expect to be treated as if she had been all along an honourable state. She will not attract the sympathies of the civilised world however loudly she may protest; and Chili, the victorious state, is certainly entitled to exact compensation for her expenditures and losses."⁶⁶

To make things even worse, after his coup against Prado in the middle of the War of the Pacific, Piérola ultimately contributed to the destruction of the local banking activities by issuing in 1879 the worthless incas to replace the *billete fiscal*. The

63 Daniel Ruzo, *Important statement with reference to the Peruvian loans of 1870 and 1872 by a Peruvian bondholder* (London: Green & Son, 1876), in: CFB, vol. 3.

64 *South Pacific Times* (Callao, June 6, 1876), in: CFB, vol. 5; and (Callao, Mar. 29, 1877), in: CFB, vol. 6; *Star & Herald* (London, Sept. 5 and 21, 1876), in: CFB, vol. 6. Meiggs dies in 1877.

65 *Brazil & River Plate Mail* (London, July 6, 1878), in: CFB, vol. 7, p. 304; and (London, Jan. 23, 1877), in: CFB, vol. 5, p. 345.

66 *The Bullionist* (Dec. 13, 1879), in: CFB, vol. 9, p. 48.

Banco Garantizador was an early casualty when, under the influence of some of its directors who were involved in business and politics with the Piérola regime, it converted its cash into incas (León 1882: 7, 33).

In conclusion, during the mature Guano Age the private economic and financial leadership was not able or allowed to take firm command of the national economy, and thus remained vulnerable to recurrent public intervention, with damaging effects on the domestic monetary and institutional bases. Public and private inefficiencies were allowed to subsist through monopolistic and privileged arrangements. Failed traditional debt and fiscal strategies prepared the conditions for the decline in the effectiveness of domestic financial intermediation.

5. Liberal Banking Reconstruction

After the loss of the war, due in part to the financial difficulties during the late Guano Age (Quiroz 1983), the defaulted 1876 foreign public debt was settled in 1890 by surrendering the national railroad system and other rights of sovereignty to foreign creditors (Miller 1976). After a profound restructuring the Peruvian state became more economical with minimal expenditures, no foreign credit, and financed until 1905 by indirect taxation and strict commercial loans granted by local banks.

The postwar domestic élite now had ample opportunities to engage in business without two main encumbrances typical of the late Guano Period: a depreciated currency and a large public debt. With a sound monetary policy, first based on silver and then, around 1897-1901, changed to the gold standard conditions were optimal for the institutional growth of the banking structure (Payán 1892; Garland 1908). Increased institutional specialization and the gold standard created conditions for the lowering of interest rates for commercial and urban mortgage credit.

Agro-exporters were initially opposed to the introduction of the gold standard. They favored instead the continuation of the monetary system based on silver. The international price of silver was declining in the 1890s. Consequently native agro-exporters benefited as recipients of foreign gold currency and debtors in silver currency. However, they gradually withdrew their opposition to the gold standard when providers of funds and commercial services expected payments in gold, and a general economic stabilization ensued (Dubois et al. 1892). Official monetary regulation limited itself to allowing the drastic adjustment mechanisms of the gold standard (Ford 1962). The interests of local banks and creditors as well as foreign merchants and investors prevailed in monetary matters until 1914.

The only banks which avoided bankruptcy after the war were the two exclusively commercial banks, the British Banco de Londres y México, and the native Banco del Callao (Jones 1977; Joslin 1963). They formed the core of the new financial structure that appeared in the period known as that of National Reconstruction (Quiroz 1989: 35-53). These two banks merged in 1897 to form the Banco del Perú y Londres, an institution with a majority of native shareholders. Another three local banks and three insurance companies had been established by 1900. In the period after the War of the Pacific local banks took on the task of arranging the private debts and defaults of firms as well as building the basis of urban mortgage which contributed to urban reconstruction and renovation in the 1890s and 1900s.

The legacy of the failed note-issuing banks and long-term agrarian mortgage credit of the Guano Period and a widely diffused distrust of the general economic situation after the war had lasting effects. Banking transactions remained strictly short-term commercial, and banks were averse to agrarian loans without the intervention of merchants. Commercial private credit was granted mainly to merchants who financially control the agrarian export sector (Klarén 1973: 5-12; Klinge 1945). Between 1884 and 1906 approximately 30 percent of the credit

granted by the major local bank, the Banco del Perú y Londres, went to trade related activities, 20 percent to urban properties, 15 percent as short term loans to the government and public institutions, and 10 percent to manufacturing.⁶⁷ However, between 1907 and 1914 a shift in the bank's financial policy favored the flow of abundant foreign capital into the domestic financial structure.

Domestic financial interests established a profitable collaboration with foreign capital which allowed oligopolistic business to flourish. Private monopolistic and oligopolistic tendencies had surfaced in Peru and Chile in the 1870s in the form of price agreements to avoid competition, especially in the nitrate business (Gibbs, North) and wool trade (Gibbs, Stafford).⁶⁸ These were initial organizational tendencies which became more common in the 1890s.

Favored by advantageous financial and monetary conditions, foreign capital flowed into Peru in the 1900s and 1910s. Debts to foreigners were essentially private rather than public. The underwriting of securities financed abroad and the importation of foreign capital to finance local securities were common in the period 1898-1914 when the gold standard operated. The relatively small though active Lima stock market captured local capital essentially in the profitable stock of banks, insurance companies, agro-industrial firms and cattle-rearing companies.⁶⁹

The leadership of the Peruvian banking system was held by the Banco del Perú y Londres which absorbed British and French capital during the years 1897-1914 in search of oligopolistic dominance; this endangered its native character. In general, the foreign presence (in collaboration with domestic interests) in Peruvian private finances was considerable in this

67 These percentages of sectorial distribution of credit were obtained from a significant sample of banking transactions of the Banco del Perú y Londres (Quiroz 1989: 321-325).

68 GLL, Antony Gibbs & Sons, Ms. 11,121; and Harrison to W. Gibbs & Co. (Lima), Arequipa, 8 March 1878, GLL, Ms. 11,124: fol. 96.

69 Bolsa Comercial de Lima, "Memoria anual" [1900-1914], in: *Boletín de la Bolsa Comercial* (Lima).

period. Crowding-out of domestic investors from profitable financial business by foreign capital (e. g. *Crédit Foncier Peruvien*) did occur. However, exclusively foreign financial institutions did not generally perform as well as native and resident financial firms (Quiroz 1989: 248-251).

Peruvian financial activities resulted by 1907-1914 in the concentration of wealth in the form of gold. The currency was instrumental in commercial and financial activities but the popular sector resented the accumulation of gold coins by banks and merchants, especially during the first years of the introduction of the gold standard and at the outbreak of World War I. The particular type of Peruvian institutional and financial intermediary development disregarded the promotion of small savings and deposits. The small institutions directed at the small savings market (charitable and religious savings houses and pawn brokers) did not perform efficiently in terms of interest rate policies for popular deposits and credit.⁷⁰ Also, banking concentrated overwhelmingly in the Lima region, as shown by a 77 percent average allocation of mortgage loans in the department of Lima during the years 1894-1907 (Quiroz 1989: 74).

Oligopolies were also helped by banks with strong foreign participation. Huge speculations in oligopolized securities (e. g. *Empresas Eléctricas Asociadas*) took place in the London market just before World War I. Semi-private institutions carried on effective tax farming (although the taxation structure remained indirect rather than direct) and the utilities and service enterprises were private (Quiroz Ms. 1986).

Oligopolistic interests and the banks did not accept state intervention beyond certain limits. From 1884 to 1919 fiscal finances relied considerably on local commercial credit by offering the concession of semi-public tax-collecting companies to private financial interests. Foreign public debt had been curtailed drastically since 1879. However, foreign investment in the stock

70 Mayer de Zulen (1906: 1155); Camprubí Alcázar (1968: 4-95, 111); *Inspección de Casas de Préstamo* (1901: 37); Quiroz (1989: 100-109).

of semi-public companies and foreign loans to the state for military purposes increased between 1905 and 1914.

The financial collapse during the first months of World War I had a very profound effect on the private banks, which saw their gold reserves depleted. The state was also severely affected due to a sudden decline in its customs revenues. This time, state intervention was needed to officially guarantee the first money bills issued by local banks since 1879.

Between 1884 and 1914 few state-sponsored infrastructure works were projected. It was rather the private business sector which benefitted from the liberal management of the state. Political stability contributed to this. These years saw the recovery and the transformation of the sugar and cotton plantations towards expanded production, together with a parallel process of proletarianization in the coastal region. Urbanization began its first advances, aided by a mortgage system of credit which modernized the legal system of property and helped urban reconstruction after the war. It was, however, mainly private trade linking foreign markets to the interior markets which benefited most from the development of the commercial banking structure of this period.

6. Conclusions

From the evidence shown, the following conclusions are relevant to the assessment of the significance of public debt finance for the private institutional, intermediary, monetary and distributive characteristics of the domestic financial structure in the two export cycles studied:

1. During the mature Guano Age the relationship between the public and the private financial sector was ultimately characterized by the predominance of the state, despite the institutional and intermediary innovations of private note-issuing and agrarian mortgage banks in the 1860s. Political strife be-

tween liberal and traditional groups had disturbing effects on domestic finance, especially with regard to internal debt mechanisms of poor distributive effects, banking activities and monetary stability. Relatively stable monetary policies were negatively affected by state intervention made necessary, by 1872-1873 because of failed foreign debt strategies. This was due in part to the existence of traditional state monopoly rights rooted in the colonial past. Militarized and recently re-centralized governments preferred to over-rely on monopoly guano revenues as collateral to foreign indebtedness, rather than on local resources, tax reform, reduced (military and bureaucratic) expenditures, and more proportionate public investment.

2. During the period following the War of the Pacific a liberally oriented private sector led the financial structure and strove to keep the state from interfering with private business and finance. Extravagant expenditure and public works were avoided by the state. Monetary conditions under the gold standard were stable and favorable for merchant creditors, foreign and joint investments in the private sector, and the expansion of financial institutions. Capitalist export-oriented business and urban improvement were promoted basically by commercial and mortgage credit. Foreign indebtedness was mainly private and, by 1913, became highly speculative on over-capitalized oligopolistic security ventures. This financial speculation had adverse distributive and crowding-out effects.

3. Centralization of the financial power in Lima and the coastal region by the 1860s diminished the influence of the interior regions. Wealth inequality increased (Chaplin 1967), and domestic intermediaries disregarded the needs of small savers and depositors. Institutional development in the financial sector was highly weighed against a more equitable distribution of wealth. The second phase of income and regional development (i.e. redistribution of income and the overcoming of regional inequalities) remained an unfinished task in both export cycles.

4. Public indebtedness, by favoring and making possible highly politicized state intervention during the Guano Age,

proved an obstacle to trends toward private diversification and accumulation beyond purely commercial ventures. The acceptance by the private economic leadership of misplaced and often corrupt state intervention, at a time when banks were menaced by a financial crisis (1873-1879), were a clear sign of weakness, which had its roots in the immense damage suffered by the colonial private sector after independence. A firmer alliance between agro-exporters, merchants and bankers was disturbed by public inflationary needs. The resulting opportunistic arrangement between a stronger state and a weaker private sector in 1873-1878 permitted the survival of the unfit and corrupt. On the other hand, it would seem that between 1884 and 1914, export surpluses were better channeled through institutional and informal private finance, despite the dependence of agro-exporters on credit from merchants and bankers. Moreover, in the postwar recovery period the low public indebtedness was rather internal than external in nature compared to the Guano Period of high public, basically foreign indebtedness.

In general, it is pertinent to conclude that an unbalanced and foreign-biased public indebtedness affected adversely the Peruvian domestic financial evolution and its developmental consequences. This contrasts with the better institutional and monetary circumstances (albeit accompanied by poor wealth distribution results) offered by the moderate and manageable public debt in the period after the War of the Pacific.